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TO RUEHC/SECSTATE WASHDC 6943
INFO RUCPDOG/USDOC WASHDC
RUEHNE/AMEMBASSY NEW DELHI 1439
RUEHKA/AMEMBASSY DHAKA 0452
RUEHIL/AMEMBASSY ISLAMABAD 7439
RUEHKT/AMEMBASSY KATHMANDU 5577
RUEHKP/AMCONSUL KARACHI 2248
RUEHCG/AMCONSUL CHENNAI 8036
RUEHCI/AMCONSUL KOLKATA 0361
RUCPDOG/DEPT OF COMMERCE WASHDC
RUEHC/DEPT OF LABOR WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUEHLMC/MILLENNIUM CHALLENGE CORPORATION

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STATE FOR SCA/INS AND EEB/TRA/OTP
STATE PASS USTR FOR ADINA ADLER
COMMERCE FOR JONATHAN STONE
MCC FOR S. GROFF, D. TETER, D. NASSIRY AND E. BURKE
TREASURY FOR LESLIE HULL

E.O 12958: N/A

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SUBJECT: SRI LANKA: MIXED REACTIONS TO NEW U.S. LAW ON MARITIME
CARGO SCANNING REQUIREMENTS

REF: A. SECSTATE 119837 B. COLOMBO 1134

11. SUMMARY: Colombo Port authorities and managers of shipping lines expressed opposing views on the ability to meet the new U.S. law on maritime cargo scanning requirements. Authorities of the Port of Colombo maintain that the port will be able to scan all U.S.-bound shipping containers by year 2012. With the port already operating the Container Security and Megaports Initiatives, they say the port is well-positioned to implement the new law before 2012. Authorities have several logistical concerns but they are confident these can be resolved. These issues include: above all, timely cargo flow; infrastructure costs and space limits; shortage of skilled manpower; legal access to all containers; and added costs associated with all these issues. By contrast, shipping lines operating in Sri Lanka argue that Colombo Port will not only be unable to fulfill the requirement in five years, but also that the port is only a small piece of how the entire global shipping network will be negatively affected and unable to efficiently manage the requirement. End Summary.

12. Econoff separately delivered ref A points to the Secretary to Ports and Aviation, Tilak Collure; Harbourmaster of the Port of Colombo, Captain Ravi Jayawickrema; Director General of Customs, Sarath Jayathilake; and Deputy Director of Customs and Intelligence, L.M. Nelson. All supported the law and affirmed that the Port of Colombo, the country's main international port, would be able to scan all U.S.-bound shipping containers before the 2012 deadline. All agreed that the port, compared to others in the region, has fewer technical and logistical challenges to overcome as it already operates the Container Security Initiative (CSI) and the Megaports Initiative. Presently, approximately 200-250 containers bound for the U.S. are handled each day at the port, of which 20 percent are local exports and the rest are transshipments.

SCANNING DELAYS CARGO FLOW

13. The primary concern all parties expressed was whether the Act would have a negative impact on cargo flow. Currently operating at full capacity, the port's productivity is in steady decline and has caused enough congestion to persuade some shipping companies to

reroute their lines to bypass Colombo Port (ref B). Port authorities told Econoff that CSI and Megaports operations are among the factors contributing to the delays in cargo flow. With each scan taking 15 minutes and an average of 10 to 15 cargo containers scanned daily, cargo flow is delayed by at least a couple hours each day. Presently, only one of four scanners is fully operational with a second due to operate within a month. The port authorities cited lack of space and limited skilled manpower to explain the delay in operating all the scanners. Customs officials said they will submit to Econoff a detailed plan as to how they will get the remaining scanners in operation. Though the port authorities blamed CSI and Megaports for exacerbating the delays, authorities appeared optimistic that once scanning inspections were integrated into the overall operations, the port will have an advantage over other regional ports that have not joined the two initiatives. Authorities told Econoff that they felt more comfortable tackling these logistical problems now knowing that their competitors will experience similar challenges in the future.

WHO IS GOING TO PAY?

¶4. One concern port authorities expressed involved the cost associated with conducting secondary scanning inspections. Port officials and the Treasury were still in discussion as to who would bear the costs of the false-alarm secondary inspections. Secretary Collure predicted that the Treasury would likely favor shippers and that the costs would be incurred either by the Ports Authority or by the Customs Department. To help defray the costs of non-fraud container inspections, the port is considering increasing fines for contaminated containers.

¶5. Other costs that port authorities foresaw included new

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radioactive systems-detection systems (depending on new technology requirements) and associated equipment such as cranes and trucks; building of the dedicated sites for the scanners; and training of technicians and operators assigned to the systems. With a multi-million dollar infrastructure expansion underway already, authorities did not know how they would cover these additional costs.

SHIPPING LINES AND EXPORTERS SEE LA AS UNWORKABLE

¶6. By contrast, local shipping line managers and exporters said the U.S. containr scanning initiative was "unnecessary," "unthinkale," and "not viable." One country manager of amajor shipping line asked Econoff why the U.S. culd not bear the burden and scan all the containes upon arrival in the United States. Moreover, hipping lines and exporters doubt that Colombo Por would be able to fulfill the requirement withinfive years as the port is already experiencing lw productivity, high costs, limited space, and delas in its expansion plans. Managers of the shipping lines also pointed out that the law will require significant funding, especially to procure more scanners, as the port's present inventory of four is not sufficient. In addition, land for the placement of scanners, cargo containers, cranes, trucks, etc., has not been included in the present expansion plans.

¶7. The biggest worry for shippers is global congestion in the shipping line network. The scanning requirement will affect the whole journey of each vessel, forcing shipping lines to manage new delays at each port their vessels visit. One country manager stated that such delays would increase costs for shipping lines, decrease the confidence of their customers who expect their cargo to be delivered on time, and negatively impact the environment as vessels burn more fuel to rush to their next destination port.

¶8. Garment exporters in Sri Lanka likewise have told shipping lines that they think the requirement is unfeasible in the next five years as they cannot afford delays in their supply chains. If the law is implemented, the "cut-off time" for exporters to have their cargo at the port for loading could be increased by two or three days; currently, exporters have to ensure their cargo is at the port 24

hours before vessel arrival. By forcing shorter production windows, the measure would increase costs.

19. COMMENT: Port officials and shipping lines agree that Colombo Port's biggest problem is its congestion and low berth productivity. While port authorities are focused on the port's operations and how to logistically accommodate the new requirement, shipping lines argue simply that the new requirement will negatively affect the entire global shipping network. Showing the same pragmatism and foresight that led them to make Colombo Port the first port in Asia to implement both CSI and Megaports, port authorities are resigned to working out the logistics to fulfill the requirement within the prescribed time.

BLAKE